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**THE INTERNATIONAL ECONOMIC RECESSION, PLANNING
AND ECONOMIC MANAGEMENT IN THE
ENGLISH SPEAKING CARIBBEAN**

*/ Document prepared for the V Conference of Ministers and Heads of Planning. A summary of this is included in "Summary: Planning and public policies in 1982-1984 and the prospects for the second half of the decade" (see LC/IP/L.15 (CM 5/4)).

FOREWORD

Fostering growth and efficiency is the prime concern of planning, policy-making and economic management in the Caribbean countries. These aims are vitally important during the current severe crisis that most countries have been experiencing due to external factors. Not only has the international recession continued to decrease the demand for major exports but also the worsening of the fiscal and foreign exchange situation has affected the public investment programs and has led to debt servicing problems.

All the Governments acknowledge the seriousness of the situation and have taken steps to speed up the process of adjustment and recovery. They are strongly determined to fulfill the hopes for full employment and improved standards of work and living.

This paper has been written as a background document for the V Conference of Ministers and Heads of Planning of Latin America and the Caribbean. It reviews the effects of the international recession and the ways and means employed by the countries to cope with their most serious consequences. It also considers the views of the most important regional organizations about the role that planning and policy making may have in adjusting the economies and recovering a path of sustained and equitable growth.

The document was prepared by the Director of Research Programmes of ILPES with the assistance of Mr. Swinburne Lestrade and the cooperation of the ECLAC Office for the Caribbean. The work tried to survey all the experiences of the English-Speaking Caribbean. However, due to the lack of adequate materials, some of the cases had to be omitted.

Being this a preliminary report, ILPES acknowledges the comments that may be deemed appropriate for a final publication.

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION.....	1
II. DEVELOPMENT PLANS, EFFECTS OF THE INTERNATIONAL ECONOMIC RECESSION AND ADJUSTMENT PROGRAMS: COUNTRY EXPERIENCES.....	3
1. Recessionary impact and adjustment on Caribbean countries.....	3
2. Some country experience.....	6
a) Barbados.....	6
b) Guyana.....	10
c) Jamaica.....	18
d) Trinidad and Tobago.....	24
e) OECS Countries.....	30
III. BASIC TASKS FOR THE FORESEEABLE FUTURE.....	37
1. The Caribbean Development Bank.....	37
2. The Caribbean Community (CARICOM).....	41
3. The Caribbean Development and Cooperation Committee (CDCC).....	43
4. Planning and development in the Caribbean area - ILPES/ECLAC future action.....	46

I. INTRODUCTION

It is proposed in this document to analyze the extent to which the international recession of 1980-82 affected economic policy and planning in the Caribbean. The discussion will deal largely with the cases of Barbados, Guyana, Jamaica, Trinidad and Tobago and the OECS Countries. Opportunity will be taken to discuss possible forms of external assistance to the OECS Countries in planning and economic management. Throughout we shall be making certain observations which touch on the concept of adjustment as it applies to Caribbean Countries.

Economic planning has been developed and carried out in different ways within the CARICOM Region. Since the Second World War only Barbados and Jamaica can be said to undertake systematic efforts to produce a planning document reflecting the totality of the countries' policy strategies and objectives within a long-term time frame. In Trinidad and Tobago, where three five-year plans had been produced, such long-term planning was discontinued in the mid-1970s, but new efforts are underway. In most countries, planning is understood as the coordinated management of public policies.

One conclusion which follows from this study is that it becomes rather difficult to relate international circumstances to the achievement or otherwise of agreed macro-economic objectives and targets. This requires that attention should focus on the annual statements by finance ministers of their countries' economic and financial proposals over a twelve-month period. The annual budget presentations constitute the major planning document for the countries and analysis of these is essential to comprehend macro-economic and sectoral growth objectives and to appreciate the changing responses and adjustments to the vicissitudes of the national and international economic situations.

Inherent in this, is the further implication that because the planning periods are so short, it is rather more difficult to determine very precisely the extent to which apparent changes in policy are a consequence of international events.

It would in any event be difficult to establish a precise relationship between economic policy and progress in the respective countries, and international economic recession. The establishment of such possible relationship would require a more quantitative treatment of the subject than is possible in this presentation. Even in situations where planning documents did exist, the objectives situations in the CARICOM countries, i.e., essentially those of openness and dependency, would render any attempts at a consistent approach to long-term planning something quite difficult. Countries in the Caribbean are almost fully absorbed into the international economic system, the effects of which are quickly reflected in the countries' economic performance.

Recognizing the obstacles and opportunities posed by the international linkages, steps need to be taken for upgrading the level of planning as a coordinated process of decision-making. Up to now planning has played a limited role and in most of the experiences it is associated as said to the concept of national economic management and to the practice of drafting plans, programmes and projects as a pre-condition for requesting external financing. With some exceptions, the traditional form of planning has been concentrated in the preparation of public investment programmes but in some cases without controlling certain key policy instruments and without an adequate institutional machinery.

Planning and coordination of public policies seems to be the best way of developing the potential of economies and for coping with the challenges posed by external events. Finally, planning could contribute to undertake comprehensive adjustment programs to assess their financial implications and the needed longer-term structural changes.

II. DEVELOPMENT PLANS, EFFECTS OF THE INTERNATIONAL ECONOMIC RECESSION AND ADJUSTMENT PROGRAMS: COUNTRY EXPERIENCES

It is proposed in this chapter to take an overview of the extent to which the international recession of 1980-82 affected economic policy and planning in the Caribbean. The discussion will consider the cases of Barbados, Guyana, Jamaica, Trinidad and Tobago and the OECS Countries.

1. Recessionary impact and adjustment on Caribbean countries

As with developing countries worldwide, so also in the case of Caribbean countries the effects of the international recession varied in nature and extent. Yet there were broad similarities, namely:

- i) Import reductions deriving from stagnant or declining foreign exchange earnings, reduced foreign capital inflows or (significantly in the cases of the OECS Countries) reduced levels of remittances from overseas nationals, and cutbacks in development imports;

- ii) Declining government revenues due to reduced economic activity, the stagnation in trade and the difficulty of imposing new taxes during the recession;

iii) Cutbacks in investment plans and the slowdown of on going projects because of shortages of domestic and external funds.

The foregoing were more or less applicable to all of the CARICOM Member States.

To counteract the described effects, the approaches to adjustment employed by Caribbean Countries contained policy measures directed to restore the external and internal equilibrium. The former included greater export-orientation of productive activity; reduction of current account deficits by foreign exchange devaluation and import budgeting; and heavy external borrowing. While the latter implied decreases in expenditure on social services; cutbacks in subsidies to consumers; and restraining monetary policy. In some cases, these measures were accompanied by deregulation of the economy and a deliberate policy of encouraging private enterprise and by more concerted and systematic approaches to macro-economic management and economic policy frameworking.

Beyond the adjustment measures adopted, one should recognise the existence of longer-term issues, namely:

i) The countries all face the long-term problem of their structural transformation, i.e., the need for a more fundamental change in existing structures and patterns of production and trade and institutional arrangements, in a way which can make for sustained economic growth and a sustained improvement in living standards. The adjustment measures that Caribbean countries fundamentally require are those that relate to this longer-term while the kind that the countries have had to put in place as a response to the

crisis should be viewed as only the beginning of a systematic process of longer-term structural adjustment;

ii) The nature of the economic policies pursued by the countries over the 1960s and 1970s has been an important determinant of the nature and extent of the adjustment which has been required in the early 1980s;

iii) Given the open, dependent nature of their socio-economic systems, planning and policy options for adjustment are limited. Planning and policy options in the smaller OECS Countries are even more limited; while their central banking arrangements may be deemed to protect them from some of the possible ravages of international recession, these arrangements also stricture their scope for policy manoeuvring;

iv) It is inevitable that short or longer-term adjustment will have a regional dimension. This derives from the common market arrangements which, to a significant extent, remove from the sphere of national decision-making, action relating to foreign trade and protection. The Nassau decision ^{1/} betray a commendable determination on the part of Caribbean Governments to come to terms with the requisites of adjustment, although one might have expected some of their decisions on intraregional trade to have been more fully considered and less hastily taken.

^{1/} See Heads of Government of Member States in the Caribbean Community (CARICOM), The Nassau Understanding. Structural Adjustment and Closer Integration for Accelerated Development in the Caribbean Community, Nassau, 4-7 July, 1984.

2. Some country experiences

a) Barbados

i) Planning and the strategy formulated

Barbados is one of the small number of Caribbean countries where development planning can be said to be institutionalized, with a well organized planning mechanism. In 1978 the Government established a planning and priorities committee, a sub-committee of the Cabinet to oversee the planning process and direct plan formulation and implementation.

Five development plans have been produced since the country attained independence in 1966. The fourth such plan addresses the period April 1979 to March 1983.

The gross domestic product at factor cost was projected to grow at an average annual rate of 4% in real terms between 1978 and 1983. The thrust of this growth was expected to come from tourism and manufacturing, for which the projected growth rate were 7.4% and 7.8% respectively. Construction was expected to grow by 5% per annum, and sugar by 3.5%.

Structurally, by the end of 1983 manufacturing would have increased its contribution to GDP from 11.3% in 1978 to 13.5% and tourism from 11.6% to 13.6%. The other sector's contributions were to have remained more or less steady over the period.

The overall objectives of the development strategy for the 1980s were:

1. Maximizing GDP growth, production and employment opportunities, consistent with budgetary and balance of payments constraints;

2. Greater economic diversification through continued structural transformation of the economy.
3. Diversified patterns of production of goods and services.

The development strategy sought to achieve:

- a) A marked increase in employment opportunities and output from the productive sectors;
- b) A reduction in the rate of inflation;
- c) A substantial improvement in the balance of payments;
- d) An increase in the opportunities for the population to satisfy their basic needs;
- e) Greater self-sufficiency in the economy;
- f) A marked improvement in resource management;
- g) A continued income redistribution process.

ii) Economic performance and effects of the international economic recession

Over the period 1981/1982, the effects of the international recession were felt severely. Gross domestic product in 1981 declined by 2.4%, the first fall since 1975. By 1982 this decline was 4.7%, reflecting a lower contribution from the country's most important sectors, sugar and tourism. In 1981 the index of retail prices registered a small rise over the already high increase of 1978 and 1980 (13.1% and 14.4% respectively). The government registered a drastic reduction in its surpluses on current account with an increasing overall fiscal deficit. The level of external borrowing in 1981 almost doubled that of 1981. As a consequence the country's national debt rose by Bd\$ 190 millions in 1981. Foreign debt service payments increased in 1981 to Bd\$ 11.9 millions or the equivalent of 1.4% of current account earnings.

In 1981 the country's balance of payments came under intense pressure. The negative balance on current account worsened considerably - Bd\$ 54 millions in 1980 to Bd\$ 201 millions in 1981. The country's main export, sugar, was adversely affected by both declining production, the depressed world sugar market and the depreciated value of the pound sterling in which the price of exported sugar is denominated. Tourism earnings were adversely affected by depressed conditions in the mayor industrial countries, the main source markets for the country's tourism sector.

iii) Policy Measures, 1982-1984

The Government of Barbados obtained medium-term balance of payments financing of US\$ 50.5, under the International Monetary Funds (IMF) scheme for compensating export shortfalls and secured a three-year borrowing arrangement with the Fund, extending to May, 1984. This arrangement provided the framework for the country's monetary and fiscal policy over the period.

Monetary and fiscal policy included:

1. Reduction of capital expenditure in nominal and real terms, and the deliberate decision to support only ongoing projects or those which were already receiving institutional support;
2. Strict control of the growth of current expenditure by the streamlining of policy services;
3. Credit and hire purchase controls to stem the flow of foreign exchange which would otherwise result from increased domestic spending;
4. Narrowing the differential between domestic and international interest rates as a means of reducing the outflow of capital for speculative and other purposes;

5. Strong public sector support for wage restraint;
6. Imposition of additional tax revenue measures.

During 1981 to 1982, the Central Bank operated a policy of selective credit controls and interest rates were kept in line with overseas rates in order to avoid giving encouragement to negative trade credits or profit repatriation. The Central Bank also began to give more assistance to sectors in difficulty, especially sugar and manufacturing; the Central Bank's support measures included rediscount measures, price support schemes and export credit guarantee schemes.

Under Barbados' standby arrangement with the Fund, the Barbados Government was committed to limiting new short-term and medium-term foreign debt of the Government to US\$ 35 millions during the stand-by period. Performance targets were agreed for net domestic assets, the banking system's credit to the Government and short-term and medium-term foreign borrowing.

The Central Bank maintained a tight money policy throughout the year, and was constantly on guard against the possibility that the public sector borrowing requirement might crowd out the flow of credit to the producing sectors.

iv) Concluding Observations

During the period 1980-83, the economy of Barbados appears to have successfully weathered the storm clouds of the international recession. Barbados was able to satisfy the performance criteria agreed with the IMF without severe difficulty, although the continued poor performance of the foreign exchange earnings sectors, as well as illiquidity deriving from the demise

of the CARICOM Multilateral Clearing Facility, made it necessary to carefully monitor the balance of payments.

The policy-makers recognized the need for urgent adjustments to be made to monetary and fiscal policy and were able to execute a process of prudent economic management. Appropriate sector adjustment were pursued with vigour, and in manufacturing a vigorous drive to support industrial growth and to facilitate its export orientation was carried through.

In all this Barbados was considerably facilitated by its tradition of political and economic stability and a willingness to come to terms with the requisites of serious economic management. The adjustments which took place were accompanied by its inevitable costs of reduced growth and living standards but may have performed an important role in laying the basis for continued sound economic management in the future, and for successful long-term structural adjustment.

Yet the policies of the day were more in the nature of balance of payments financing and expenditure management rather than fundamental or structural. The strategy of Barbados' policy-makers appeared to be one of a deliberate process of guided development in directions which were presumed to be essentially correct.

b) Guyana

i) Planning and the strategy formulated

Guyana was perhaps the first country to give strong emphasis to economic self-reliance involving import substitution, import restrictions, foreign exchange budgeting and deliberate encouragement of indigenous enterprise. The Government embarked

on a policy of state-ownership and control of the country's major assets, so that by the late 1970s, approximately 80% of the country's productive assets was state owned.

The strategy was perhaps too inward-looking with insufficient attention to the encouragement of non-traditional exports. In the face of declining performance of the traditional exports (bauxite, rice and sugar), the economy was unable to maintain economic activity levels or to generate private sector activity. These were rendered extremely difficult by crippling foreign exchange shortages.

Economic deterioration in Guyana had set in since the mid-1970s and was at an advanced stage by 1980. The international economic recession had the effect of rendering more difficult the attempts on the part of the Government to begin to come to terms with economic decline. Its major export earners, sugar and bauxite, performed poorly due to declining output on soft international markets. Economic decline was so far advanced in Guayana that it led to a reversal of economic philosophy and strategy aimed at improving the country's economic situation.

Adjustment options were surely very difficult because consumption levels were already very low, and further cuts to maintain investment could only have implied particularly severe social and human costs.

1. Economic strategy in the early 1980s

The economic strategy in operation in the early 1980s, was aimed at economic self-reliance. The provision of the basic needs of food, clothing and housing was to be given priority as

well as the relief of the poorest and most disadvantaged of the society. The capital programme had certain clearly defined objectives. It's broad emphases were in the areas of agriculture (including fisheries), manufacturing and industry, and the social sectors of health, housing and education; its specific objectives were to complete or speed up ongoing projects, recommence work which had been suspended and rehabilitate and upgrade existing facilities.

The program initiated in 1980 was designed to stem the deterioration of the economy, stimulate economic growth and restore balance of payments equilibrium. The program comprised a broad development policy strategy and specific action directed at selected sectors. The broad development strategy, included the removal of price distortions, improvements in the productivity of labour, increased agricultural yields, and improvement in the relationship between the Government and the private sectors, particularly through the removal of obstacles to private initiative. Efforts were directed at improving growth performance which was predicated on the successful execution of the public sector investment program. The sector policies pertained to energy resource development and conservation, export development, especially related to sugar, rice, fisheries, timber, bauxite/alumina and non-traditional manufactures, rationalization of pricing policies, and improving organizational and managerial efficiency. In addition the strategy included measures for mobilizing domestic resources, higher expenditure control, improved productivity and output and interest rate adjustment.

2. Economic performance 1980-1982

The economy suffered a decline in export volumes and terms of trade during the period 1980 to 1982.

In 1980, the recovery of the bauxite sector exports from the depressed level of 1979 and favourable price developments for all principal commodities contributed to a more than 30% increase in export earnings. In 1981, however, output of all major export commodities declined from the 1980 level (except in the case of sugar) and continued to remain far below capacity level. As a result, export volumes remained below the targets set in the structural adjustment program, and except for sugar were lower than for 1980. The combined effect of the declines in export volumes and a drop in average export prices, due mainly to a 15% drop in average sugar prices, was an 11% decline in the value of merchandise exports. In 1982, export performance continued to be disappointing, with the value of exports falling again by 26%.

The balance of payments deteriorated during 1979-1982. Net international reserves fell by US\$ 137 millions during 1979-1980, and gross reserves dropped to less than two weeks of imports by the end of 1980. In 1982, the current account of the balance of payments showed some improvement with the deficit narrowing but remaining at a high 33% of GNP. The sharp drop in export earnings and the absence of significant amount of capital inflows led to a sharp drop in the level of merchandise imports by about one-third in real terms.

Payments on external debt soared from nearly G\$ 50 millions in 1978 to G\$ 150 millions in 1982. This rapid accumulation of debt coupled with the sharp fall in export earnings caused considerable debt servicing problems to which the Government responded by seeking deferral and rescheduling arrangements with commercial and institutional creditors.

In an effort to arrest the rapidly deteriorating foreign exchange situation, the Government in mid-1981 devalued the Guyanese currency by about 15% vis-a-vis the US dollar.

Regarding global and sectoral production, for the first time since 1976, the economy achieved real growth of 2% in 1980, but the downward trend in real output evidenced during the latter half of the 1970s continued during 1981. The three major industries in the economy - sugar, rice and bauxite experienced serious shortfalls in their production targets and gross domestic product was only 1% higher than that attained in 1980.

Foreign exchange shortages affected production in 1981. Real gross domestic output declined by about 9%. The output of calcined bauxite and alumina which had declined in 1981 fell again by 23% and 57% respectively as production was constrained by weak international demand. Sugar output fell by about 5% and rice output increased by 10%.

The financial performance of the public sector during 1981 reflected the production, real expenditure and price trends in the wider economy, and the current deficit reached a record 13% of GDP.

In 1982, the sharp deterioration in the fiscal situation and the lack of imported inputs for investment, which reflected the absence of significant capital and aid inflows, necessitated a severe reduction in the level of public investment, which was reduced to about a quarter below the budgeted level, implying a decline in real terms of about one-third.

Monetary developments and in particular the rapid growth in credit during the period 1980-1982, largely reflect the deterioration of the performances of the Government sector. During 1980-1982, credit expanded rapidly as the public sector resorted to the banking system to finance about two-thirds of its overall deficit.

The combination of high public sector deficits and the increased unavailability of imports led to increases in the rate of inflation during the period 1980-1982. The rate of inflation as measured by the Consumer Price Index (CPI) was 13% in 1980, given the openness of the economy partly reflecting international price movements; and by 22% in 1981 reflecting the combined effects of devaluation, additional consumption taxes and the upward adjustment of a number of price controlled items in early 1981. During 1982, the CPI again rose by 20% far above the level of international inflation - as the foreign exchange shortage led to increasing commodity shortages.

ii) Revisions introduced to economic strategy

By the end of 1981 it became evident that in order to cope with the continuing decline of the economy, the economic program needed to be broadened and strengthened. The Government therefore, in 1982 adopted a program aimed at improving the efficiency in production by strengthening and rationalizing the management of the public sector and limiting its operations to those it could efficiently manage, by encouraging the expansion of the private sector, by decentralizing public sector functions, and by rationalizing controls and the regulatory framework. The main measures of the program were:

a) The conclusion of a partnership arrangement with a foreign company in the bauxite industry;

b) A reduction in the scope of activities of the Guyana Rice Board, the adoption of a rice pricing policy to maintain adequate producer prices and a review of the rice marketing arrangements to ensure optimal returns to producers and the economy;

c) Adjustments in remunerations to attract and retain technicians in the agricultural sector, a strengthening of regional agricultural institutions, and review of land tenure and holding policies;

d) Measures to expand manufacturing, particularly for exports including the adoption of a comprehensive investment code, import tax concessions, priority allocation of foreign exchange and the establishment of a joint public/private export council;

e) The limitation of public sector enterprises in manufacturing to existing activities, a strengthening of public sector enterprise management through technology and marketing partnership arrangements, and equity participation by the foreign and domestic private sector in existing public sector enterprises;

f) The continued application of measures agreed under the World Bank Structural Adjustment Loan and the IDB's Agricultural Sector Loan, including efforts to improve savings through a restraint Government spending and an increase in interest rates; and

g) A strengthening of the Government's administrative systems and institutions, based in part on IDB - financed assistance in planning.

In 1982, the Government held consultations with the IMF with a view to reducing the public sector deficit. Discussions also took place with the World Bank in relation to the effort to raise production in the major sectors. There was agreement on an Action Programme with the World Bank to restore the bauxite and rice sectors.

In early 1982, the Government also established the Export Development Fund (EDF) whose function was to promote non traditional exports. Given the severity of the foreign exchange shortage, the EDF was the main source of foreign exchange for the manufacturing sector in 1982, particularly for private enterprises. Towards the end of 1982 the level of operation of the EDF was reduced because its resources were not revolving as had been envisaged.

Adjustment policies also necessitated an increase in producer prices payable to rice farmers, an increase in the domestic price of rice and in electricity tariffs. Another important policy change relates to rice marketing. Farmers and millers were allowed to sell rice directly to retailers and consumers in competition with the Guyana Rice Board, which remained the sole exporter of rice.

iii) Overall evaluation of the adjustment process

By the end of 1983 the Guyana economy showed no signs of reversing the trend set in 1981, and the economy continued to decline even further. Since the performance of the economy has a marked impact on the finances of the public sector - which largely accounts for the internal gap - this gap continued to widen, as the public sector deficit increased. Capital inflows to finance this deficit did not materialized and private sector borrowing only generated a fraction of it, leading to an increase in borrowing from the banking system.

Given the shortfall in production and the subsequent poor export performance, there was no greater success in closing the external gap. Export earnings from the three major commodity exports were 27.5% below the budgeted amount and 18.8% less than

1982. Total export earning therefore fell below both the 1982 and targeted 1983 levels. As a result, the deficit on the current account did not fall to the planned level, despite the contraction in the value of imports over the year.

Given the low level of capacity utilization in the productive sectors and the country's rich resource endowment, there is no doubt that with substantial external assistance (largely on concessionary terms) and structural changes in the management and organization of the economy, Guyana is capable of achieving adequate rates of growth in output and exports and servicing of its debt obligation. However, because it is unlikely that timely arrangements could be put in place to make critically necessary imported inputs available to the productive sector, economic performance in 1984-1985 is difficult to be any better than that of 1983 in real terms. The prospects for 1984-1985 are also affected by the conclusion of a programme with the IMF which could in turn influence the availability of additional external assistance from the multilateral agencies. External inflows are needed to provide rehabilitation-type investment resources in order to complete those projects temporarily abandoned for lack of domestic counterpart funds and to provide working capital for productive enterprises.

c) Jamaica

i) Planning and the strategies formulated

Prior to the 1978-1982 development plan, Jamaica had three development plans but in their course, conditions changed so drastically that the patterns of expenditure and the financing of these programmes could not be met as set out in the planning documents.

The 5-year development plan of 1978-1982 had as its objectives the following:

1. Consolidation and development of a mixed economy in which the state owned or controlled the basic industries of the economy, while ample scope was left for private sector initiative and involvement.
2. To provide an adequate supply and an effective and equitable distribution of necessities to the masses of the population.
3. To promote social justice, social and economic egalitarianism and participatory forms in the society.
4. To reconcile spatial and physical planning with the objectives of community development, rural development and balanced regional development.
5. To diversify foreign relations policy both on a bilateral basis and through continuing multilateral efforts.

The advent of a new Government in Jamaica towards the end of 1980 led to a fundamental reversal of economic philosophy and strategy. The new Government's response to the international economic situation was reflected in a set of arrangements negotiated with the World Bank and the International Monetary Fund during 1981-82.

The package of measures included both financing and adjustment measures. The Government sought to increase external borrowings and to implement a set of adjustment measures linked to the IMF support arrangements, intended to bring about quick and substantial incremental foreign exchange earnings, and "to initiate adjustments in industrial and agricultural policies and so provide a basis for expansion of productive capacity, with concomitant increases in employment opportunities."

An important plank of the economic strategy was to "deregulate the economy, build up private sector confidence and support the operation of an efficient market economy".

Adjustment measures also included:

- export stimulation;
- foreign exchange control measures;
- exchange rate adjustment;
- restraining fiscal and monetary policies.

ii) Impact of the international economic recession and economic performance 1981-1983

Jamaica had been going through a difficult period prior to the onset of the international recession in 1980. Gross Domestic Product had been declining every year since 1975 (except for a 0.3% increase in 1978). In 1980, the decline was of the order of 5.4%. By 1980, the adverse movement on the merchandise trade account, coupled with a net outflow of property and entrepreneurial income, had led to a large increase in the deficit on the current account of the balance of payments. As at end December, 1980, the country's net foreign exchange reserves had fallen by US\$ 232 millions to minus US\$ 453.5 millions. There was also a considerable deterioration in the Central Government's fiscal position.

Jamaica's balance of payments problems during the crisis can be broadly attributed to two categories of factors:

1. External
2. Domestic policies and structural factors.

External factors

- Oil price increases and terms of trade

Jamaica relies on imported fuel for almost all its energy requirements. A more fundamental cause of these difficulties,

however is linked to the country's high level of petroleum consumption. Until 1973 oil imports never exceeded 10% of the total imports. That figure increased to 38.1% in 1980 and 30% in 1983, though the lower figure in 1983 is related to the decline of the bauxite/alumina sector which utilizes approximately 50% of all fuel imports.

- World wide recession and falling export demand

The international recession has had severe repercussions on Jamaica's exports especially on the bauxite/alumina industry. This sector accounted for approximately 70% of Jamaica's total export earnings during 1980-1983 and was responsible for approximately 23% of government revenue in fiscal years 1980-1983. This latter fell to an estimated 10% during the recession and the production fell from 12 million tons in 1980 to 7.7 million tons in 1983. Commensurately, the combined value of bauxite and alumina fell from US\$ 735.7 millions in 1980 to US\$ 423.8 millions in 1983 and government revenue from J\$ 334 millions in fiscal year 80/81 to J\$ 188 in 1982-1983.

- Increase in profit and interest remittances abroad

Net investment income outflows averaged approximately 25% of total earnings during the 1981-1983 period.

- Net capital inflows

Net official borrowing moved from US\$ 65.7 millions in 1979 to US\$ 446 millions in 1983. These massive borrowing were necessary to offset the ever increasing deficits on the current account, but even loans of these magnitudes were insufficient.

Domestic policies and structural factors

Import restrictions, the exchange rate system and fiscal and monetary policies, were among some of the domestic factors that affected the prices of traded goods as well as aggregate demand and supply.

With the enlarged trade deficit (US\$ 438.5 millions in 1983) and declining net foreign reserves, the official exchange rate was held constant until 1983 as efforts were made to control inflation which was very high at the time. The 1983 devaluation was intended to given back competitive adge to Jamaican producers.

As a result of the increase in public expenditure, the central government deficit widened to about 17% of GDP in fiscal year 1980-1981, and they remained high during the two following years.

The structural factors helped to explain the deteriorating trend in the current account. Jamaica's exports are dominated by four major items: bauxite, alumina, sugar and bananas, which together account for approximately 80% of total exports.

The low level of growth of agriculture during the latter years led to increases in imported commodities as the country's agricultural self-sufficiency declined. Policies aimed at changing the structure of production and the share of the private sector, such as nationalization of factories on the use of cooperatives, had the effect of discouraging agricultural exports. Also, the manufacturing sector has not had a good record during the past four years.

iii) Concluding observations

The available data seem to point to serious repercussions for the economy deriving from the international economic recession, and available information seems to suggest that by end 1983, the Government was well placed to achieve practically all of its economic performance targets, except those relating to the external payments account. However, it may yet be too early to permit of a definitive evaluation of Jamaica's adjustment process.

According to the statement made by the Jamaica's Prime Minister in 1984 (and also the economic indicators made available by the Government's Planning Institute), "... every one of the targets of economic recovery was achieved to an extent unequaled by many countries throughout the world". By end 1983 there was, held to be "... increased investment, restoration of growth, a reduction of the fiscal deficit, a reduction in inflation and a decrease in unemployment". The key failure (that relating to balance of payments performance), was deemed to be directly attributable to the dramatic fall in the exports of bauxite/alumina between 1980 and 1983, deriving directly from the impact of the international recession.

In the case of Jamaica, there appeared to have been a clear concerted approach to the economic policy requisites from the early 1980s. Adjustment was taking place; measures were implemented with fixed determination, including exchange restrictions and exchange rate depreciation. The case is interesting if only because it is the most far-reaching Fund-related balance of payments adjustment in the English-speaking Caribbean. It is incomplete because, as was admitted by the Jamaica Prime Minister in his early 1984 statement, the impact of the adjustment measures has not yet begun to be felt positively on the balance of payments.

The adjustment will be complete when export-oriented manufacturing, agro-industry and agriculture can erode the dominance of the bauxite/alumina sector in the country's economic calculus, and when such enhanced performance of the non-traditional sector can become sustained. When that time comes the process will more closely resemble structural transformation than the narrower concept of adjustment, and the need for structural transformation is really what the socio-economic problems of the Caribbean point to.

d) Trinidad and Tobago

i) Planning and the strategy formulated

The budget speech of 1980, a document reflective of the Government's intended strategy, showed a certain degree of optimism regarding the country's future. However it took account of the fact that the revenues from the petroleum sector could not be expected to continue indefinitely and alerted to the danger of an excessive overreliance on the petroleum sector.

By 1980 the petroleum sector contributed two-thirds of the Government's current revenue and this provided the essential link between the petroleum sector and the rest of the economy.

In addition to a more rational approach to the planning of the energy sector, including the role of natural gas, there was a number of measures proposed for conservation of energy. There were fiscal measures for the rationalization of the taxation of the oil companies and others aimed at rationalizing the expenditure of Government departments and subsidising various items of consumption. The Government proposed the adoption of a comprehensive programme for combating inflation. It embarked on a direct subsidy programme

involving basic food and other items such as gasoline and cement. There were certain reforms introduced in the income tax structure aimed at bringing relief to low income earners.

The country's agricultural policy was underprived by two broad concerns. First the needs of the society as a whole were considered particularly as they related to the promotion of overall economic development by strengthening the agricultural sector and establishing greater linkages with the rest of the economy; improving the nutrition status of the population and natural resource conservation. The second major concern related to the welfare of the farmers.

However, the economic programme and economic policies in effect in 1980-1981 did not appear to be geared to address the international events of the time, and were determined to a large extent by the vicissitudes of the oil price situation and its effects on government revenues and the balance of payments. Also there is little available evidence to indicate that important policy changes, were contemplated as a result of the decline in the performance of the economy in 1982. By 1984, however, the budget outlined certain adjustment objectives. Prior to the 1984 budget presentation, a major planning document had been produced, entitled "The Imperatives of adjustment: Draft Development Plan, 1983-1986".

Besides, in 1983, the Central Bank had instituted a number of monetary and financial policies and had introduced in October of that year a system of foreign exchange budgeting the main objectives of which were:

1. To slow down the rate of decline of the foreign exchange reserves;
2. To effect a better allocation of foreign exchange among competing uses with priority being given to imports of capital goods.

The 1984 budget explicitly recognized the imperatives of adjustment. It gave specific endorsement to the objectives and principles of the Draft Development Plan produced by the Demas Task Force. This Draft Plan had been previously endorsed by the Economic Planning Commission which had been established in mid-1983 to oversee and give direction to the country's future economic strategies. The main planning imperatives adopted were:

1. A determination of the mix of goods and services to be produced and whether the development strategy should be outward or inward looking;
2. A determination of the measures to be used to deal with the emerging fiscal and balance of payments problems;
3. The need for measures to make the economy more competitive while sharing the cost of adjustment equitably;
4. Identification of the criteria to be used to tailor the size and composition of Government capital expenditures to the reduction in the public sector's available financial resources;
5. A determination of the kinds of reforms needed in the structure and functioning of the public service, the public utilities and the state enterprises;
6. Measures to support the level of employment in the face of the slowing down of the economy;
7. The role and direction of the oil and sugar industries.

ii) Effects of the world recession on the domestic economy and economic performance

The economy of Trinidad and Tobago, oil exporter, was rather favourably positioned by 1980. The economy had been registering real growth since 1974, a growth rate of 9.3% being recorded in 1977. In 1980 real growth was 5.3%. After 1973

there was a drastic change in events relating to the Government's financial position. The deficit of TT\$ 61.4 millions in 1973 was transformed into a large surplus in each of the following years to 1980, attributable to the five-fold increase in the price of petroleum products. The unemployment situation actually improved - 17.3% in 1973, 9.8% in 1980. Inflation was 22% in 1977 and fell to 17.5% in 1980. The balance of payments current account, which had been registering a progressive decline since its 1974 high of TT\$ 407 millions, registered a surplus of over TT\$ 900 millions in 1980 (and over TT\$ 1 billion in 1981) as a result of the oil price increases in 1979.

As an oil exporter, the economy was to some extent shielded from the effects of the international recession, and the imperatives of adjustment may have been apparent but not in evidence. By 1983, however, there was cause for concern since the international economy had improved during that year, but not the performance of the domestic economy.

In 1983 GDP was estimated to have declined by 6.3%, the first decline in the growth rate since mid-1970s. There was a corresponding decline in the performance of the agriculture and petroleum sectors. The surplus on merchandise trade account which in 1980 was TT\$ 142 millions was converted into a deficit of TT\$ 1 456 millions by 1982. Since 1980 merchandise exports had been declining steadily from TT\$ 6 205, in 1980 to TT\$ 4 899 millions by 1983. In 1982 there was a large current account deficit in the balance of payments of TT\$ 1 786 millions which increased in 1983 to TT\$ 2 320 millions. The overall balance of payments position which in 1980 was in surplus of TT\$ 1 472 millions had been transformed into a deficit position of TT\$ 2 006 millions.

The country's net terms of trade declined from 124.1 in 1980 to 81.5 by the end of the second quarter of 1983 of TT\$ 3 446 millions in 1981 the position moved to a deficit of TT\$ 14 millions in 1983.

iii) The adjustment policies

By comparison with other countries the adjustment measures proposed for implementation in Trinidad and Tobago appear mild; it is true to say that the circumstances were rather less pressing and had not assumed the same crisis proportions. The policies implemented or proposed for implementation in 1983-84 included such measures as removal of subsidies on consumer items and on the services of public utilities, yet it is doubtful that these measures can be attributed to the international economic recession per se. The economy of Trinidad and Tobago had been facing a decline in the early 1970s, and its high growth performance in the mid-1970s was in the nature of a windfall deriving from the events surrounding the international oil market. These circumstances may well have had the effect of delaying the process of coming to terms with the structural problems of the economy.

There were perhaps two dimensions to the adjustment issue:

1. There was the short-term problem brought about by the recession in the industrial countries. This principally concerned the reduction of foreign exchange earnings and the consequent need to adjust downwards the country's demand for imports to change the import composition in favour of essential goods and services;
2. There was the long-term problem of altering the structure of production and improving its competitiveness to match the ever-changing condition of world demand which involves a reduction of dependence on oil and successful development of alternative export industries.

There was a number of measures implemented to address the short-term problem, among which were import budgeting and foreign exchange control measures. As in the case of Jamaica the more fundamental long-term requirement related to changing the country's structure of production and trade. These were the real imperatives of adjustment and this is the overriding concern of the Draft Development Plan.

The Government had since the mid-1970s been taking measures to lay the foundation for industrial adjustment through its investment policies. It had been attempting to move away from a narrow and concentrated dependence on the petroleum sector towards a broadening of the country's industrial base by developing large scale energy-based industries such as iron and steel, ammonia, urea and methanol.

The scenario envisaged for the economy to the year 2000 includes the following two elements:

1. A national economy no longer dominated by petroleum but with a diversified production and export base;
2. The existence of a sound technical and managerial base for efficient production in all sectors of the economy.

Other aspects of the long-term development strategy addressed the need for macro-economic planning, including public sector investment programming and appropriate monetary and financial policies.

iv) Concluding Observations

In Trinidad and Tobago, there was a relative lateness of coming to terms with the imperatives of adjustment. The 1984 budget, influenced by the Report of the Planning Task Force, was the first to betray a strong sensitivity to the adjustment issue. The delay in adjustment was clearly a function of the favourable balance of payments and resource situation deriving from the fortunes of the petroleum sector. But for the oil price increase of 1979, the nature and the tone of the 1984 budget statement may have come rather earlier.

It is interesting to note the relative mildness of the proposed adjustment measures by comparison with other Caribbean States. This factor doubtless derives from the relative buoyance of the economy over the ten-year period 1974-1984, a situation which among other things, would have rendered public acceptance of the imperatives of adjustment difficult.

It is yet too early to assess the impact of the adjustment proposals, and in this regard two observations may be made: (i) a critical factor in the success of proposed adjustment measures may be the question of broad social acceptability, and (ii) in the absence of a dramatic reversal in the fortunes of Trinidad and Tobago's petroleum sector in future years, more serious adjustment may be a sine qua non for arresting economic decline and providing a basis for future development.

e) OECS Countries

There are important data limitations in the OECS Countries which make it difficult to properly assess the importance of international developments in their economic situations. In the case

of these countries the effects of international recession can be expected to be felt in:

- i) A falling off in remittances from nationals overseas;
- ii) A declining growth performance of the tourism sector;
- iii) Difficulty in securing additional external financing;
- iv) Declining recurrent revenues due to a falling off in imports.

There is evidence to indicate that the OECS Countries were affected in all four of these areas. In St. Lucia for example, travel receipts declined in 1981 although there may have been political factors contributing to this fall. The balance of payments current account deficit rose in 1982 and in 1983 in spite of the fact that total imports fell in 1982 and 1983 below 1981 levels, this decline being reflected in imports of both intermediate and capital goods. Over the period there was a continuing decline in the exchange value of the pound sterling causing a loss during the period of more than 25% in the value of the country's banana exports. External factors, especially the exchange rate factor, had a dampening effect on the country's fiscal performance, causing shortfalls in consumption tax, customs and stamp duties.

Available material does not make it easy to determine the extent to which there were changes in policy or strategy over the period as a consequence of changing domestic or international circumstances.

One OECS country which sought the assistance of the IMF to support its economic development efforts was Dominica. In early 1981, the Government initiated a three-year economic recovery programme aimed at improving public sector savings performance,

promoting higher levels of foreign aid and investment, and reorientating the investment efforts in order to strengthen the balance of payments position. The fiscal programme envisaged revenue measures and expenditure restraint to assist in improving the current operations of the Central Government. The Government secured the assistance of the World Bank in formulating a three-year investment programme focussing on the restoration and improvement of infrastructure and the diversification and expansion of the agricultural and manufacturing sectors.

The need for a recovery effort in 1980 was occasioned by the decline that characterized the economy in the mid-to late 1970s, but more specifically by the natural disasters of 1979 and 1980.

Real GDP grew by 8% in 1981, 3.5% in 1982 and 4% in 1983. The damage to physical infrastructure and productive capacity in agriculture was repaired, and implementation of a major road programme commenced in the last quarter of 1983. The rate of increase in consumer prices fell from 30% in 1980 to 13½% in 1981, and in 1982-83 may have been approximately 4%. The central Government finances strengthened significantly, and the current account deficit on the balance of payments fell from approximately 55½% GDP in 1980 to 9½% in 1983.

Dominica certainly appears to be on the way to recovery from the natural disasters of 1979 and 1980. Full recovery will take a much longer time and is predicated on continued sound economic management and good fortune.

Much effort will be required in the OECS Countries to ensure prudent management of the recurrent budgetary situation, to ensure

cost-effective planning of capital expenditure and to vigorously promote tourism and investment. To support and complement these efforts, macro-economic policies need to be appropriate and consistent.

Two observations are made in relation to the case of OECS Countries such as St. Lucia and Dominica. The first relates to the fact that the nature of their central banking arrangements serves to provide a measure of automatic protection from the worst ravages of international recession; because of their financial systems they are unlikely to suffer dramatic declines in their foreign reserves positions. Pressures on the external account would tend to be felt via import contraction, declining economic growth, and the worsening of government finances. This arrangement allows little scope for changes in fiscal and monetary policy, including exchange rate policy. The options of adjustment are limited, and also somewhat automatic.

Secondly, the OECS Countries generally do not have well organized, consistent approaches to macro-economic and sectoral planning. Clearly articulated, systematic approaches to planning for structural change need to be adopted and this argues an important case for external assistance to the countries of the OECS in these areas.

i) Required Assistance in Planning

Capabilities for economic planning and policy formulation in the OECS Countries are known to be weak. This weakness is essentially reflective of these countries' generally low levels of manpower capability in all sections of the public sector. From the 1970s efforts were made in some of the OECS States such as Dominica, St. Lucia and St. Kitts/Nevis, to establish

planning units, thereby betraying some awareness of the requisites of sound economic management, but the countries have generally experienced considerable difficulty in sustaining these efforts. A sustained capability for economic advice and policy guidelines has often also been wanting, there being a dearth within the countries of a sufficient number of persons capable of performing these roles. Such planning organization, as it has taken place, derived partly from some of the implications of borrowing from international financial institutions and partly from the interest and influence of particular individuals working within the national systems.

A related deficiency is in the area of statistics and statistical development, which partly derives from the near absence of macro-economic planning and the dearth of internal dialogue on macro-economic policy issues and strategies. The need for statistical development in the OECS Countries has been addressed - the United Nations Development Programme in particular, has over the last ten years invested large sums of money on training nationals of OECS States and in more directly assisting in laying down systems for outputting national economic accounting data and for organizing national statistical offices. It is imperative that these efforts continue developing, especially when defined to focus on national capability in areas like statistics and economic planning and policy formulation in countries such as those that characterize the OECS.

Therefore, there needs to be a continuation and intensification of efforts to increase the countries' capabilities in statistics and statistical appreciation, macro-economic and sectoral planning

and economic policy formulation. In view of past efforts and failures, innovative approaches are now needed. Ad-hoc seminars or workshops are insufficient and need to form part of a sustained, well conceived training effort. There may be need for a continuing institutional capability within the OECS or CARICOM Region for training in economic planning and economic policy issues. For this purpose it may be necessary to do no more than re-orientate existing programmes to ensure that this identified need is addressed adequately.

Quite apart from formalized training, more provision should be made for training on-the-job through the provision of experienced economic planners with a training capability. Given the shortage of manpower in the OECS States, such on-the-job possibilities, with experts provided externally, may be the only means of ensuring that OECS nationals receive the required training and exposure. The approach must be continuous, innovative and flexible enough to adapt to circumstances of particular countries.

Effective action on the foregoing requires effective planning and coordination - which appears to suggest that one of the Caribbean regional institutions should include responsibility for these functions among its activities. The OECS Secretariat may be the logical place for such coordination to take place if it can acquire the required manpower capability.

It would need to be supported by external assistance. One envisages a two-year project, to include one or two experienced economic planners in addition to an additional economic planning official within the countries, with adequate travel resources for the experts and with a sufficient budgetary provision for training workshops.

This proposal is very much along the lines of the statistical development project located at the OECS Secretariat and funded by the UNDP. This kind of statistical support is a necessary complementary pre-requisite to any more sustained and comprehensive approach to macro-economic and sectoral planning.

ILPES may well have a role in lending technical support to the efforts of the OECS States to increase their macro-economic planning capability. Such technical support can take the form of assistance in the planning and organizing of a planned series of workshops, technical support to the regional organizations involved and otherwise supporting the efforts of the countries, but this role could also be of a more directly supportive nature. It may well be necessary for ILPES to have a presence in the Caribbean in a way which can result in greater, more continuous benefit to the Caribbean Region, and towards this objective ILPES will establish a planning unit within the Port of Spain Office of the United Nations Economic Commission for Latin America and the Caribbean. The major purpose of this Unit could be to carry out perspective planning for the OECS Countries. The premise is that for the foreseeable future, planning priorities in the OECS Member States will inevitably be short-term in horizon and national in focus. The responsibility for the wider and the larger view falls to the regional institutions to adopt.

ii) Conclusion

The foregoing has been a preliminary overview, and these conclusions and inferences are only tentative. Adjustments is a large, all consuming imperative. If the kinds of adjustments that are necessary to respond to changes in the external environment

open our eyes to the imperatives of longer-term structural adjustment, then occasional international recessions may be a blessing in disguise.

In the case of the OECS Countries the larger imperative is to organize effective approaches to the development of national capabilities for economic management and planning. These countries may be in a low-level equilibrium trap and large capital inflows are required to break out of it. These requirements define the role of external financial and technical assistance institutions in these countries development.

III. BASIC TASKS FOR THE FORESEEABLE FUTURE

The effects of the international economic recession on the Caribbean countries continues to generate serious problems and the necessity to use scarce financial and human resources efficiently and optimally is vital to the countries of the sub-region. In this sense, the premise for the foreseeable future is that the strategy will inevitably be long-term in horizon and national/regional in focus.

Taking these considerations into account, several institutions have made proposals which imply a strengthening of planning efforts and improving national economic management. The most important are reviewed in what follows, as a framework for the tasks of the future.

1. The Caribbean Development Bank

The Conference of Heads of Government of the Caribbean Community at their Fourth Meeting in Trinidad and Tobago in July 1983

requested the Caribbean Development Bank (CDB) to "conduct a study, taking into account the views of Member States and other appropriate regional institutions, with a view to identifying, evaluating and recommending measures of structural adjustment which would maximize the production, employment and foreign exchange earnings of member countries".

The study concludes that there is an urgent and continuing need for structural adjustment in the region in response to the recent deep recession in the industrialized countries and consequent protectionism in the developed countries. The study recognizes the role of the market and the private sector in the process of economic growth and structural transformation, but takes the view that there must be a substantial amount of Government involvement in the economy under the specific circumstances prevailing in the CARICOM countries. In this connection, the study proposes a special type of the mixed economy: the guided market economy.^{1/}

The report recognizes the need for the availability of adequate external financing to help the adjustment programme. Nonetheless, the report lays great emphasis on the adoption and implementation of appropriate domestic adjustment policies as the best means of correcting for any disequilibrium in any national economy.

The study seeks to highlight the implementation aspects, the need for improving the levels of human resource capabilities and the necessity of institutional change.

^{1/} Caribbean Development Bank, Measures for Structural Adjustment in the Member State of the Caribbean Community, 10th May, 1984, pp. 154-158.

The study recommends a growth strategy based on carefully planned production for extra-regional exportation - particularly in the manufacturing sector; and it recognizes that fundamentally the structural balance-of-payments problems are the manifestation of inadequate levels of competitively costed production for export and import-substitution.

Finally, the study takes into account the regional integration aspects both as objectives and as means to achieving national goals. It warns against the danger of regional divisiveness and disintegration in well-meaning efforts at structural adjustment at the national level.

Taking into account the effects of the international recession on economic policy and planning in the Caribbean, these were the proposals submitted to promoting structural adjustment in the region.^{1/}

i) Developing a variant of structural adjustment lending which will provide financial support for structural adjustment measures, particularly as these relate to the reorganization of critical export sectors, without changing the Bank's procurement guidelines or reimbursement procedures.

If the arrangement is acceptable, only a small proportion of the Bank's resources will be so channelled and every effort will be made to co-finance supply-side oriented programmes with other international institutions;

^{1/} Caribbean Development Bank, "Adjustment and Recovery in the Caribbean Economies", statement by Mr. William G. Demas at the 14th annual meeting in Jamaica (May 16-17, 1984).

ii) Paying even greater attention to the macro-economic environment and its impact and implications for major projects.

The intention here is not to impose macro-economic conditionality on project lending, but to identify and to bring to the attention of borrowers the macro-economic constraints which may frustrate the optimal development of the project and so attempt to improve the project's environment;

iii) Assisting, independently or with other agencies, in developing the capability for generating a statistical base and engaging in economic planning, national economic management and policy formulation in the Bank's member countries demanding such assistance.

Such assistance could be in the form of continued participation in national economic management, technical assistance in establishing statistical and planning units; and

iv) Making available to countries, on a request basis, the Bank small team of dedicated and committed economists who have been collecting data and making analyses of economic performance and prospects of the various countries and who assist the borrowing member countries in relevant capacities on short assignments.

Areas in which they can prove useful include: formulation of public sector investment programmes; identification of desirable economic policies to be pursued and making assessments of their macro-economic impact and implications, and in economic planning exercises generally.

2. The Caribbean Community (CARICOM)

a) The Nassau Understanding: "Structural Adjustment and Closer Integration for Accelerated Development in the Caribbean Community"

Heads of Government of Member States of the CARICOM Meeting in Nassau, 4-7 July 1984, reviewed the report on measures for structural adjustment in the member state of the Caribbean Community, prepared at their request by the Caribbean Development Bank (CDB).

Following upon discussion of the report, they were in general agreement with its recommendations.

From the point of view of planning, these are some of the most important conclusions:^{1/}

a) The Heads are mindful that their economies should continue to rely significantly upon market mechanisms to determine prices and the allocation of resources. However, a process of structural change cannot under Caribbean conditions be left to evolve through spontaneous forces. The objectives of getting prices right will be pursued through purposive national planning that will concretely shape the short and long-term directions through which the economies can attain their maximum growth potential and satisfy basic human needs.

Accordingly, Governments declare their intention to strengthen their machinery for national planning: to involve all sectors of their societies in the processes of plan formulation, implementation and monitoring; and to strengthen the links between development plans and the short-term management of the economy. Careful and

^{1/} The Nassau Understanding, Nassau, the Bahamas, July 7, 1984.

continuing attention will also be given to the size, composition and financing of public sector investment programmes.

b) It is one of the tasks of planning to extend the arena within which all nationals in a position to do so can on their own, or with overseas partners, contribute to the aggregate of investment and production decisions that will accelerate growth and development. However, Governments are prepared to do more. In appropriate cases particularly where new technology and new markets are involved and where local capacities have not sufficiently emerged, they will assume a catalytic role in starting new joint ventures with local and/or overseas partners.

An unrelenting drive will be made to enforce operating efficiency in all public sector activity. Consequently, there will be an upgrading of the management and functioning of existing state enterprises and public utilities. Including giving them the autonomy and responsibility to operate on strictly commercial lines within broad policy guidelines clearly laid down by the government.

The Heads agree that the principal objective of macro-economic policies should be to achieve and sustain a dynamic and rational balance between the level, composition and growth of the domestic demand for goods and services and their local and regional availabilities. This involves, inter alia, fiscal discipline to keep public expenditures within the real resources available to the public sector, and the use of fiscal and monetary instruments to foster sustained growth and bring about an appropriate balance between consumption and investment. Altogether, the overall thrust of adjustment policies will be to increase the share of

exports and investment in the aggregate demand for goods and services, and to expand the contribution of domestic production relative to imports in aggregate supply.

c) Heads of Government recognize that the successful execution of macro-economic policies contributes significantly to the improved performance of individual sectors. Accordingly, they give their broad endorsement to the action programmes as set out in the report to improve sectoral performance in export and domestic agriculture, livestock, agroindustry, fishery, forestry, manufacturing industry, tourism, energy, bauxite/alumina, and science, technology and information.

3. The Caribbean Development and Cooperation Committee (CDCC)

a) Strategy for the Caribbean Countries during the Third Development Decade

Five years ago the CDCC approved the report called Strategy for the Caribbean Countries during the Third Development Decade.^{1/} Following upon analysis of the report the member countries recognized a fundamental role to planning and national economic management. Accordingly, Governments declared that planning activities will undoubtedly take various shapes, from central planning to management of resources within open market relationships. But in all cases the process will demand, together with a high degree of flexibility and due attention to the international scenario, increasingly sophisticated resources of knowledge and abilities. In view of the specificities, size and structure of sub-regional societies, there will be a need to monitor more closely internal and external changes, in order to increase the efficiency of management and optimize the control over an elusive environment.

^{1/} ECLAC, Strategy for the Caribbean Countries during the Third Development Decade, United Nations, CDCC, ECLAC, Office for the Caribbean, 1980.

To cope with the Caribbean challenges the mentioned strategy stated that beyond the problems of investments, adequate combination of productive factors and expansion of the productive capacity, the key to planning during the 1980s appears to be summarized in the word negotiations: negotiations in the international fora and negotiation in the national contexts. To be effective, the plan or its substitute must gradually become the net result of a concerted action of society, based on collective choices and determination to achieve self-reliance, in spite of the severe pressures of limited financial resources. The plan will then be an instrument of arbitration in the search for equity. The success of this arbitration will depend on the degree of efficiency achieved by the managers in the public sector.

Following with the argumentation the report adds: "the situation with respect to day-to-day economic management also calls for continuing attention. The long-standing problems of keeping the budgetary deficit under control through vigorous tax administration and enforcement; relentless effort to control the growth of recurrent expenditure (including remuneration in the public sector) and to secure greater cost effectiveness in government capital expenditure programmes and projects; to reduce - if not eliminate - the current account deficit of public corporations and other state enterprises; and to keep deficit financing (borrowing from the Central Bank) within the limits set by available resources, including foreign exchange availabilities - all pose difficulties that require sustained effort in the search for solutions".

Finally, in efforts to upgrading the level of economic management, the report concludes: "Apart from the question of overall national economic management there is a whole complex of problems involved

in the management of public corporations and state-owned producing and commercial enterprises. Here a number of issues arise: delegation of authority in operational matters within clearly articulated and coherent policy frameworks; accountability to the political authorities, parliament and the public generally; setting of rates; tariffs and prices in such a manner as to cover operational costs, debt service and a contribution to the financing of capital investment programmes. More often than not, because of failure to resolve these issues, public corporations and state enterprises run enormous deficit, constituting a heavy burden on the Central Government budget and resulting in public sector and national "dissaving" instead of generating public sector and national savings".

b) Regional cooperation within the CDCC

Within the functions and responsibilities of the CDCC, the system of cooperation and coordination among the Caribbean Planning Bodies have made valuable contributions. First, in the research field experts from the Region have prepared sectoral documents and also surveys of national planning experiences in the subregion. These contributions have promoted better programming efforts and implementation of projects. Second, in the training area there were held several seminars, courses and workshops in selected topics of high priority for the civil service oriented towards the efficient management of the available resources. Third, following the spirit of cooperation and integration the system have promoted and carried out the exchange of experiences in social and economic planning.

The results of the past three meetings of planning officials held respectively in Havana (1979), Kingston (1980) and Port of Spain (1983) have emphasized the need of planning as a fundamental

tool for development in the Region. According to that, the CDCC Secretariat has reaffirmed in several sessions its support to the ad-hoc working groups of planners in agriculture, energy, manpower, physical and regional planning, transport and training. The ECLAC Port of Spain Office and ILPES have been in charge of the Secretariat of the meetings held so far.

All of the above make it possible to conclude that the existing mechanism of cooperation among the Caribbean planners has contributed for a better common understanding and for an approach centered around rational and efficient use of resources.

4. Planning and development in the Caribbean area -ILPES/ECLAC future action

At the IV Conference of Ministers and Heads of Planning of Latin America and the Caribbean (Buenos Aires, 9-10 May, 1983) ILPES submitted for discussion the document entitled "Planning and Development in the Caribbean Area - Background and prospects". It was also analyzed at the Third Meeting of Caribbean Planning Officials held in Port of Spain, Trinidad, 19-25 January, 1983.

On the basis of the role and challenges of planning as a fundamental component of the development strategy some points were stressed by way of conclusion:

a) The fact that the Caribbean Island system is based on a fragile and dependent economic structure means that there are only a limited number of intersectoral links and multiplier effects, which gives rise to the need for a flexible and adaptive planning system with a perspective which is regional but at the same time consistent and integrated at the national level on the basis of national development strategies.^{1/}

^{1/} ILPES, Planning and Development in the Caribbean Area-Background and Prospects, Santiago de Chile, 1983.

b) In the light of the experienced observed, planning needs to cut back on some of its administrative tasks and stress those which are related to the promotion and management of development.

c) The technical and institutional bodies which come between the project (Micro) and the plan (macro) need to be harmonized and integrated so as to keep external aid from being dispelled and prevent the dispersion of state efforts into activities with little impact on global development policies.

All of the above, as well as some other references, might make it possible to conclude that it is necessary to strengthen planning for understanding the complex challenges posed by the Caribbean economies. This seems to be the best way for more effective management of state activities and better allocation of available resources in view of the current critical situation.

Accordingly and taking into consideration the work carried out in the field of training, research, horizontal cooperation and advisory services during the past ten years, ILPES has confirmed its commitment to the Caribbean by establishing a special Planning Unit jointly with ECLAC with duty station in its Port of Spain Office. This Unit will maintain close contacts with the Governments in an effort to provide technical support to the region's development.

In response to the Government's needs and priorities the Planning Unit will promote the exchange of development experiences, plans, programmes and projects for planning. It will also carry out continuous analysis of progress in planning and obstacles to it and will promote closer links among the planning bodies in order to strengthen regional integration and cooperation in a way consistent with the related efforts of other institutions.

